BOSTON EDISON COMPANY, CAMBRIDGE ELECTRIC LIGHT COMPANY AND COMMONWEALTH ELECTRIC COMPANY

d/b/a NSTAR ELECTRIC

Direct Testimony of James G. Daly

Exhibit NSTAR-JGD-1

D.T.E. 05-[XX]

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James G. Daly. My business address is One NSTAR Way, Westwood, Massachusetts 02090.

Q. By whom are you employed and in what capacity?

A. I am the Director, Electric and Gas Energy Supply for Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (collectively, "NSTAR Electric" or the "Companies") and NSTAR Gas Company.

Q. Please describe your education and professional background.

A. I graduated from Trinity College in Dublin, Ireland with a Bachelor Degree in Electric Engineering and from University College in Dublin, Ireland with a Masters in Industrial Engineering. After serving for eight years as Regional Marketing Engineer/Senior Engineer for the Electricity Supply Board in Dublin, Ireland, I served from 1988-2000 in various positions including Senior Vice President of Unitil Service Corporation, with lead responsibility for procurement, operations and management of power and natural gas to various Unitil subsidiaries. In addition to this position, I was the President of Unitil Power Corporation, with lead responsibility for designing energy portfolios based on purchased power and negotiated all major power contracts. From 1998-2000, I was President of Unitil Resources, Inc., developing an energy consulting business to major energy companies and selling power for Great Bay Power Corporation. During 2000-2001, I held the position of Executive Vice President, Network Operations for Enermetrix.com, Inc., where I was responsible for developing an Internet-based network for large retail customers to procure electricity and natural gas. From 2001-2003, I was Vice President/Director of Power Market Development for Sprague Energy Corporation where I was responsible for developing a start-up retail electricity business servicing large customers. I assumed my present position on July 7, 2003.

Q. Please describe your present responsibilities.

A. As Director, Electric and Gas Energy Supply, I am responsible for securing a least-cost energy supply for the Companies and NSTAR Gas Company. My responsibilities currently include securing a supply for Default Service and wholesale energy customers.

Q. Have you previously testified in any formal hearings before regulatory bodies?

A. Yes, I have testified before state regulatory agencies in Massachusetts, Connecticut, and New Hampshire, as well as the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony?

A. My testimony will describe the Companies' proposed revisions to their Terms and

Conditions for Distribution Services and Competitive Suppliers, respectively, as they relate to the provision of Default Service (presented on customer bills as "Basic Service") to the Companies' customers. Specifically, the Companies are proposing revisions to their Terms and Conditions to address the practices of some retail competitive suppliers to "game" the Companies' existing Terms and Conditions which allow customers to choose competitive suppliers. As described in more detail herein, these "gaming" practices by retail competitive suppliers have resulted in the formation of obstacles in the wholesale generation market that limit opportunities for the Companies to receive the lowest-priced bids for wholesale generation services, or inhibit bidding altogether.

Q. What exhibits are you sponsoring in your testimony?

A. I am sponsoring six exhibits as well as this testimony, Exhibit JGD-1. Exhibits JGD-2(a), (b) and (c) are revised Terms and Conditions – Distributions Services for the Companies, presented in both clean and red-lined formats, that include the Companies' proposed language for addressing the "gaming" issues described herein. The Companies are also proposing revised Terms and Conditions-Competitive Suppliers to address the issues outlined herein, presented as Exhibits JGD-3(a), (b) and (c). These exhibits are also presented in clean and red-lined formats.

II. REVISED TERMS AND CONDITIONS

Q. Please describe the circumstances that have prompted the Companies to propose revising their Terms and Conditions as they relate to the provision of Default Service.

A. The Companies' most recent solicitations for Default Service from wholesale generation suppliers for large Commercial & Industrial ("C&I") customers have produced fewer bids than the Companies had expected or desired, based on historical data. This less vibrant level of response to the Companies' most recent RFPs prompted the Companies to investigate possible causes for this trend.

Q. What did the Companies identify as causes for the decreased level of responses to the Companies' RFPs for Default Service for Large C&I customers?

A. Among other causes, the Companies determined based on feedback from suppliers that wholesale generation suppliers have been deciding whether to bid on Default Service RFPs, and at what price, based on the volatility of the large C&I customer load available to be served. This volatility is caused by the migration of large C&I customers on and off Default Service during the three-month period covered by wholesale Default Service contracts for large C&I customers.

Q. How does volatility influence the decision by wholesale competitive suppliers to bid on Default Service RFPs?

A. Load volatility represents a variable in a wholesale generation company's bid strategy that increases the wholesale supplier's costs to serve. The greater the Default Service load volatility, the more likely it is that a wholesale supplier will bid to serve that load at a price higher than it would otherwise had the load been more predicatable during the proposed term of the Default Service contract. Moreover, the greater the load volatility, the less likely that a wholesale supplier may bid at all because of the difficulty in hedging volatile load.

Q. How does volatility influence price?

A. Wholesale suppliers bid a fixed price for Default Service that remains in place for the three month term of the bid. In addition, these suppliers hedge their load obligations based on their estimate of the level of load that is likely to be served over the term of the bid. Presently, wholesale suppliers have difficulty estimating the level of load that will be served because load is free to leave Default Service and choose a competitive supplier. Load tends to migrate off Default Service when prices in the wholesale market decrease as competitive suppliers have more opportunity to beat the Default Service price and attract customers from Default Service. In these circumstances, the wholesale supplier will be left with higher priced power that they will likely sell at a loss in a lower priced market. Wholesale suppliers must build in a margin to cover such losses, which results in higher prices for Default Service.

In addition, wholesale suppliers that are serving Default Service customers can realize losses when prices rise after the beginning of the Default Service contract term if load migrates back to Default Service from retail competitive suppliers that may not be willing to serve customers at prices below the Default Service price. Wholesale suppliers must build in a margin to cover such possible losses and, therefore, these additional margins result in higher prices for Default Service than would otherwise be offered if volatility were not a factor in bidding on Default Service load. However, this normal level of volatility is a basic design feature of Default Service that is priced into the service and borne by all Default Service customers. In contrast, the incremental increased volatility caused by "gaming" the system, as described in more detail herein, results in an additional price premium that is borne inequitably by Default Service customers that do not participate in "gaming" and is the focus of the Companies' proposed revised Terms and Conditions.

Q. What is causing the incremental level of Default Service load volatility over the level of volatility normally present?

A. The incremental level of load volatility on Default service results from from retail competitive suppliers moving large C&I customer load onto Default Service when the wholesale market price is higher than the Default Service price. Essentially, retail competitive suppliers avail themselves of a free option to park load on Default Service and then sell the power that would have been used otherwise to service that load at a higher price in the market. Retail competitive suppliers are switching customers through their access to Electronic Data Interchange systems which is the standard method employed by utilities and competititve supplers in Massachusetts.

Q. How has this volatility manifested itself on the Companies' system?

A. Currently, Default Service is approximately 960 MW of demand. The Companies' load volatility on Default Service has been as much as 160 megawatts ("MW") over a period of a few months and can swing plus or minus 50 MW within a few days. This volatility is directly attributable to large C&I customers. Approximately 40 percent of the Companies' large C&I customers currently take generation service from a retail competitive supplier. These customers represent approximately 60 percent of the Companies' total load.

Q. How do these customers influence volatility?

A. For the two years studied, approximately 36 percent of the large C&I customer accounts that switch from competitive supply to Default Service switched back to competitive supply during the year. Of those accounts, 82 percent return to the same competitive supplier. Almost the entirety of multiple switches is attributable to three retail competitive suppliers in 2004 and 2005, with one of these suppliers accounting for approximately 72 percent of the multiple switches.

Q. How much notice do retail competitive suppliers and customers get of a change in Default Service Pricing?

A. Default Service supply is procured quarterly. Notice of the Companies' Department-approved Default Service prices for the upcoming quarter is provided to customers at least 30 calendar days prior to taking effect. Moreover, the Companies are required to file their proposed Default Service rates with the Department at least five business days prior to the 30-day customer notification period in order to allow the Department adequate time to review the proposed rates. Accordingly, retail competitive suppliers have over a month notice prior to the effective date of new Default Service prices to evaluate upcoming Default Service prices and deceide whether to switch load to Default Service. Load would typically switch on the meter read date but can be switched on days other than the meter read dates pursuant to the Companies' Off-Cycle Meter Read tariffs, thereby further accommodating switching.

Q. With regard to those large C&I customers that switch to and from Default Service, what is the typical period of time between switches?

A. The average number of days between switches to and from Default Service by large C&I customers is 66 days. Because the average duration of the Default Service price is three months, or approximately 90 days, the retail competitive suppliers are utilizing most of the period to park customers on Default Service until the next quarterly Default Service pricing term. This practice, while not prohibited under the Companies' current Terms and Conditions, is an unfair manipulation, or "gaming," of the system that increases prices to customers who do not or cannot secure supply from the competitive market.

Q. Can smaller C&I or residential customers utilize multiple switches to their advantage in the same manner as large C&I customers?

A. No. Most retail competitive suppliers are interested in serving large high credit quality customers than other customers. Accordingly, large C&I customers are attractive to retail competitive suppliers, a fact borne out by the high participation on retail competitive supply by this class of customers. However, this has resulted in lower credit quality customers being served primarily through Default Service. Moreover, because retail competitive suppliers focus their efforts on attracting large C&I customers, lower credit quality customers have less choice of suppliers and rely more on the availability of Default Service. Therefore, the opportunities for lower credit quality customers to pursue multiple switches on and off Default Service, even if such practice was desirable, are less prevalent than those available to large high credit quality C&I customers.

Q. How does this "gaming" of the Companies' Default Service provisions affect Default Service customers?

A. As noted previously, "gaming" results in a level of Default Service load volatility that leads to bid assumptions by wholesale generation suppliers that increase costs for those customers that do not game the system, namely smaller customers. These bid assumptions may be either: (1) to offer a higher bid price to serve Default Service load than otherwise would be offered if volatility were less of an issue; or (2) not to bid at all, which reduces the amount of competition for the distribution companies in procuring Default Service supply. Therefore, the practice of multiple switching must be addressed in order to reduce Default Service load volatility, and consequently, to achieve lower Default Service pricing, for the benefit of all customers.

Q. How do the Companies propose to address this problem?

A. The Companies propose to address "gaming" by revising their Terms and Conditions for Distribuiton Services and Competitive Suppliers, respectively. The revisions entail the inclusion of a prohibition on customers taking Default Service from returning to the same retail competitive supplier that previously served them for a period of six months from the effective date of change from competitive generation service to Default Service. A customer would not be prohibited from returning to competitive generation service within six months of leaving it, if the customer chose a retail competitive supplier that was different from the supplier that had served the customer during the preceding six months. Therefore, a customer would remain free to switch to any other supplier.

Q. How would these revisions minimize load volatility?

A. Since the term of the Default Service Supply is only three months, a decision to switch load by a supplier to Default Service could not be made with knowledge of the Default Service price in the second three months. Absent knowledge on the prices for the second three months, the outcome of the switch from a cost savings point of view would be unknown. The proposed revisions would substantially reduce 'gaming' by restricting customers from switching back and forth from Default Service to the same retail competitive suppliers within a six-month period. This would provide wholesale generation suppliers with more certainty that the Companies' Default Service load during the contract period (3 months for large C&I customers) will be fairly predictable. Although the proposed revisions would not eliminate load mitigation risk, it would significantly reduce it.

Q. Are there other benefits to the proposed revisions?

A. Yes. The revisions are narrow in scope. They will affect only those retail competitive suppliers that desire to "game" the system. In addition, retail competition would not be affected adversely because customers would continue to be allowed to choose to be served by a retail competitive supplier, even within a short period after leaving competitive supply, provided that the supplier did not serve the customer within the previous six months.

Q. When do the Companies intend to implement their revised Terms and

Conditions?

A. The Companies would like to have the proposed revised Terms and Conditions effective in time to reference them in their next scheduled Request for Proposals for Default Service Supply for Large C&I customers, which will be issued on January 31, 2006 for bidding in early February. Accordingly, the Companies request that the Department approve the Companies' revised Terms and Conditions by January 11, 2006.

Q. Does this conclude your testimony?

A. Yes.